

Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-08 FRB-03
INR-10 NSAE-00 ICA-11 TRSE-00 XMB-02 OPIC-03
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R 162007Z AUG 78
FM AMEMBASSY OTTAWA
TO SECSTATE WASHDC 8388
INFO AMCONSUL MONTREAL
ALL OTHER CONGENS IN CANADA POUCH

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E.O. 11652:N/A
TAGS: ECON, CA
SUBJECT: CANADIAN INFLATION RATE CONTINUES UPWARD CLIMB
IN JULY.

1. SUMMARY. HIGHER FOOD PRICES CONTINUED AS MAJOR INFLATIONARY FORCE IN JULY AS NON-SEASONALLY ADJUSTED CONSUMER PRICE INDEX ADVANCED BY 1.5 PERCENT. TWELVE MONTH INCREASE IN INDEX WAS 9.8 PERCENT, COMPARED WITH 9.2 PERCENT RISE IN JUNE. ON SEASONALLY ADJUSTED BASIS, ANNUAL RATE OF INCREASE OF FOOD AND NON-FOOD PRICES ACCELERATED. DETERIORATION OF INFLATION PERFORMANCE IN JULY LIKELY TO PUSH CPI INCREASE FOR 1978 TO 8.5 - 9.0 PERCENT. END SUMMARY.

2. ACCORDING TO AUGUST 14 STATCAN RELEASE, NON-SEASONALLY ADJUSTED (NSA) CONSUMER PRICE INDEX (CPI) ADVANCED TO 177.7 (1971=100) IN JULY, A 1.5 PERCENT INCREASE FROM JUNE LEVEL. INCREASE CONTINUED TO REFLECT SHARP (4.5 PERCENT) INCREASE IN FOOD PRICES. PRICES OF FRESH FRUITS AND VEGETABLES SHOT UP BY 17.8 PERCENT IN MONTH, WHILE RISE IN BEEF

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PRICES MODERATED TO 3.9 PERCENT FOLLOWING INCREASES OF 10 PERCENT IN TWO PRECEDING MONTHS. INDEX OF NON-FOOD ITEMS ADVANCED BY 0.4 PERCENT IN JULY WITH HIGHER SHELTER COSTS AND MOTEL/HOTEL CHARGES LEADING INCREASE.

3. IN TWELVE MONTHS TO JULY CPI (NSA) ROSE BY 9.8 PERCENT, UP FROM 9.2 PERCENT INCREASE REGISTERED IN JUNE. FOOD

PRICES WERE UP BY 20 PERCENT, NON-FOOD PRICES BY 6 PERCENT.

4. ON SEASONALLY ADJUSTED BASIS (SA) CPI INCREASED BY 1.2 PERCENT IN JULY, A STRONG ACCELERATION FROM JUNE RISE OF 0.6 PERCENT. IN THREE MONTHS ENDING JULY, CPI INCREASED AT SEASONALLY ADJUSTED ANNUAL RATE OF 12.7 PERCENT. FOOD PRICES SURGED AT 30 PERCENT ANNUAL RATE, WHILE PACE OF NON-FOOD PRICE RISE QUICKENED TO 6.1 PERCENT ANNUAL RATE FROM 2.5 PERCENT RATE RECORDED IN JUNE.

5. NEWS OF ACCELERATION OF INFLATION RATE HAD LITTLE APPARENT IMPACT ON CANADIAN DOLLAR EXCHANGE RATE. HOWEVER, MOST ANALYSTS HAD ANTICIPATED MORE RAPID INFLATION IN JULY AND SUCH EXPECTATIONS WERE PROBABLY REFLECTED IN WEAKENING OF DOLLAR IN RECENT WEEKS.

6. JULY INFLATION FIGURES PROVIDED POLITICAL OPPOSITION AND LABOR LEADERS WITH YET ANOTHER OPPORTUNITY TO CRITICIZE GOC ECONOMIC POLICY. PC LEADER CLARK CALLED ON PM TRUDEAU TO "PUT FLESH ON HIS PROMISE" MADE IN AUGUST 1 SPEECH (SEE OTTAWA 3857) TO RELIEVE ECONOMIC BURDEN ON LOW-INCOME CANADIANS. SINCLAIR STEVENS, PC FINANCE CRITIC, SAID THAT TRUDEAU SHOULD RECALL PARLIAMENT AND PRESENT MEASURES TO DEAL WITH SLUMPING ECONOMY. NDP LEADER BROADBENT PREDICTED THAT HIGHER INFLATION WOULD GENERATE VICIOUS CYCLE OF INCOME DEMANDS. SOMEWHAT SURPRISINGLY, LIMITED OFFICIAL USE

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DENNIS MCDERMOTT, PRESIDENT OF CANADIAN LABOR CONGRESS, DID NOT STRESS SPECTOR OF HIGHER WAGE DEMANDS, BUT WARNED THAT DECLINE IN REAL WAGES WOULD HAVE DEPRESSANT EFFECT ON CONSUMER SPENDING AND PRODUCTION, PUTTING ECONOMY IN DOWNWARD SPIRAL TOWARD DEPRESSION.

7. COMMENT: WITH SHARP PICK UP IN CPI INCREASE IN JULY, OUTLOOK FOR INFLATION PERFORMANCE IN 1978 CONTINUES TO DARKEN. INFLATION RATE FOR 1978 COULD WELL BE IN 8.5 - 9.0 PERCENT RANGE - EVEN IF PRICE INCREASES MODERATE OVER BALANCE OF YEAR. ENDERS

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